



*Andrew Junkin
CFA, CIMA, CAIA
Managing Director*

March 6, 2008

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Global Equity – Internally Managed International Small/Micro Cap and Emerging Markets

Dear Russell,

You requested Wilshire's opinion with respect to Staff's proposal to manage two new indexed portfolios internally. Staff is proposing to manage an international small/micro cap equity portfolio and an emerging markets portfolio. Wilshire recommends that the Investment Committee support Staff's proposal as Staff has the experience and capacity to implement this cost effective approach to these equity classes.

Global Equity Staff is currently managing a suite of equity index portfolios. Staff manages domestic equities across the entire market cap spectrum (micro to mega). Staff also manages a developed country international equity index fund and two relatively new non-index emerging market portfolios, which use systematic approaches. The international small/micro cap and emerging markets areas are "holes" in the index fund line-up that prevent Staff from offering a full global suite of indexed portfolios. Allowing Staff to build these two portfolios will create a global "default portfolio." In the absence of value-adding managers, the default fund would serve as CalPERS' exposure to any particular equity class. In addition, completing the global suite of indexed portfolios will allow Staff to maintain exposure to all global equity classes during transitions, helping to control the System's transaction costs.

Wilshire regularly conducts reviews of the internal programs. Based on our last review, we feel Staff is fully qualified and appropriately experienced to effectively manage these two proposed portfolios. Specific to emerging markets, Dan Bienvenue previously managed an emerging markets index fund while employed by Barclays Global Investors, and understands the complexities involved in managing money in this asset class. In addition, Staff indicates that it has the capacity to add these two portfolios without creating workload issues. Last, Staff has identified a way to implement the Investment Committee's new Principles-based approach to emerging markets.

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In conclusion, Wilshire supports Staff's proposal. The potential benefits to CalPERS include lower costs and complete exposure to the global equity markets through internal management. Staff has proven to be skilled at managing indexed portfolios and staffing-capacity is not an issue. Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Alan Jinn". The signature is fluid and cursive, with a large loop at the end.